

Livestock, Dairy, & Poultry**Sheep & Lamb Inventory Continues To Decline**

The U.S. sheep industry continues a long-term trend of negative growth that has seen the inventory shrink from a 1942 peak of 56 million head to 6.92 million head on January 1, 2001. This year's inventory is 2 percent below the level on January 1, 2000, and 50 percent below 1975, reflecting decreasing U.S. demand for wool and for lamb and mutton and rising competition from Australia and New Zealand.

Texas, the largest sheep-producing state, saw an 8-percent drop in inventory during 2000, while Wyoming (third largest) saw a 7-percent decline. Several states did register gains, including California, Oregon, Nebraska, and Indiana. But drought conditions in the Southern Plains and western states contributed to a relatively large decline (5 percent) in national breeding stock.

Commercial production of lamb and mutton has mirrored the long-term decline in inventory. In calendar 2001, production of lamb and mutton is expected to total about 217 million pounds, down 7 percent from 2000 and 46 percent from 1975. With production down, farm prices of lambs are expected to average in the low \$80's per cwt this year, up about \$1 from 2000. Based on seasonal price patterns, market lamb prices are expected to peak during the Easter/Passover season, averaging \$81-\$85 in the second quarter.

In recent years, rising U.S. imports have offset declining lamb and mutton production, keeping per capita consumption stable. Imports, which account for about one-third of U.S. consumption, are nearly all from Australia (59 percent) and New Zealand (39 percent). Mutton and lamb enjoy a niche market, with regular con-

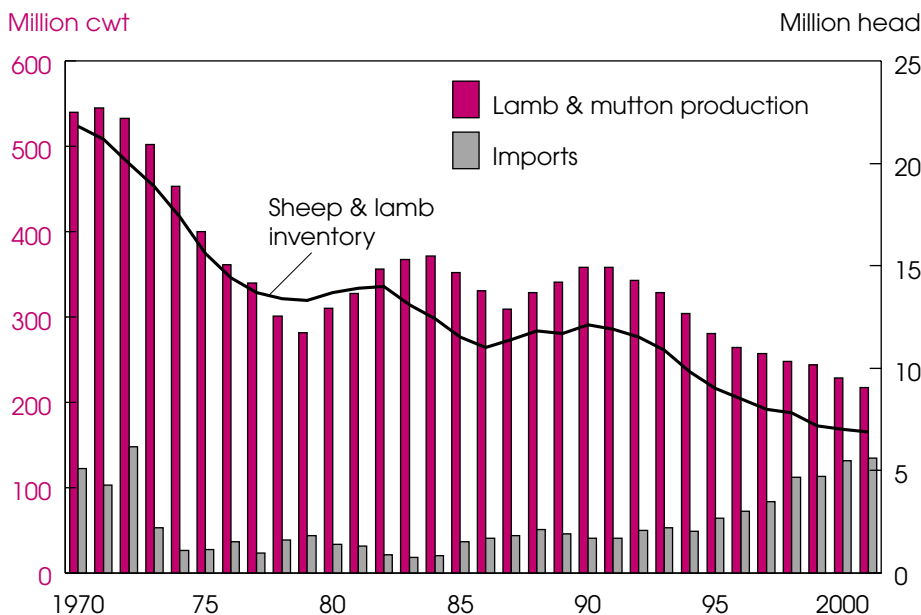
sumption concentrated in ethnic groups of Middle Eastern, African, Latin American, and Caribbean descent.

Following the import rise in the mid-1990s, the U.S. established in July 1999 a 3-year tariff-rate quota (TRQ). The *ad valorem* duty for in-quota amounts (up to 70.2 million pounds) was 9 percent in the first year (July 1999-June 2000) and is reduced by 3 percentage points for each subsequent year. The over-quota duty was 40 percent in the first year. In the second and third years, in-quota import levels will rise to about 72.1 million pounds and about 74 million pounds, respectively, with over-quota tariffs at 32 percent and 24 percent. In 2001, U.S. lamb and mutton imports are expected to be up about 5 percent from 2000 to 135 million pounds as import restrictions are reduced.

In October 1999, New Zealand and Australia filed complaints against the U.S. to the World Trade Organization (WTO). A WTO panel ruled in favor of New Zealand and Australia in December 2000, recommending that the U.S. bring its import safeguard measures on lamb meat (the TRQ) into conformity with its WTO obligations concerning safeguards. The U.S. has since appealed the ruling, and the results of the appeal are pending.

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Lamb and Mutton Production Continues Long-Term Decline While Imports Climb

Commercial production, 2001 forecast.
Economic Research Service, USDA

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what's driving them?**

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Agricultural Outlook